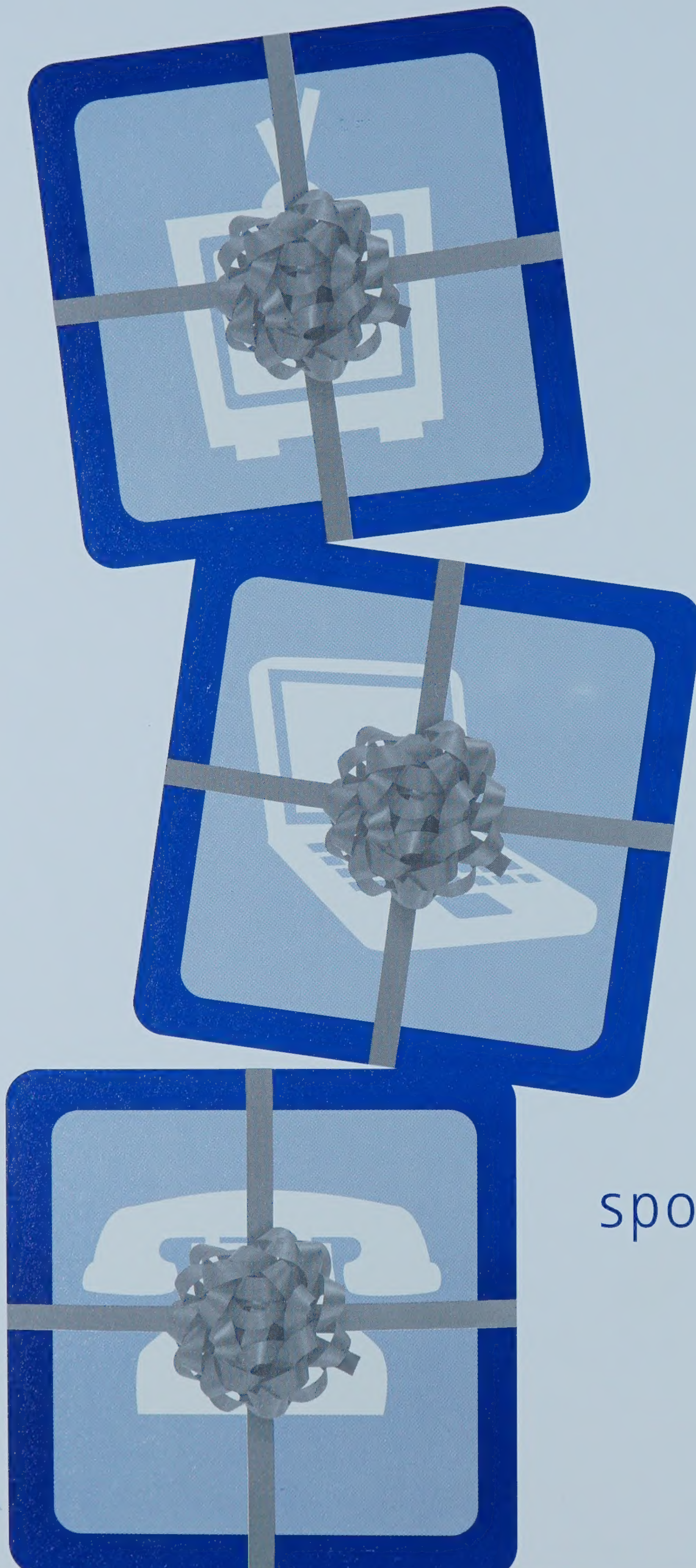
enriching guest experience

Guesttek Interactive Entertainment Ltd. 2006 Annual Report



spoil your guests

Guest-Tek is the world's largest provider of IP based technology solutions for the hospitality industry. Our OneView platform provides hotels with converged data, video and telephony services. Guest-Tek is a preferred vendor to major hotel brands, providing services including network design, procurement, implementation, and post sales customer support to over 3,425 properties and 490,000 rooms. Guest-Tek's common shares trade on The Toronto Stock Exchange under the trading symbol "GTK". Our head office is in Calgary, Alberta, and we have major support facilities in Irvine, California, and Warsaw, Poland as well as Sales offices located throughout North America and Europe. For more information about Guest-Tek, go to www.guest-tek.com.

Table of Contents

Message to Shareholders

Dear Shareholders,

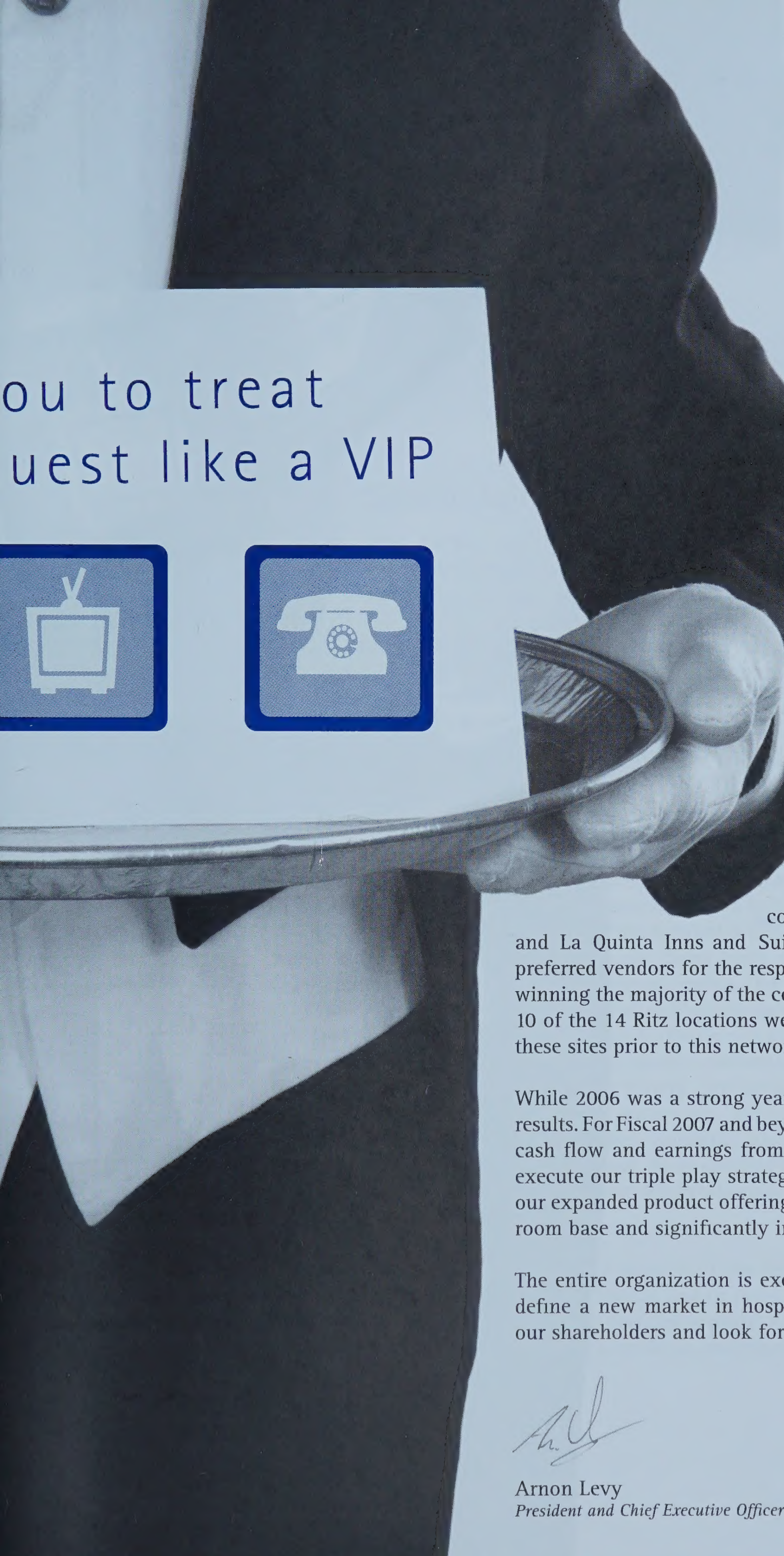
The year ended March 31, 2006 ("Fiscal 2006"), marked the first full year for your new management team following our annual meeting in November of 2004. Although we can take pride in what we have achieved this year, we have room for improvement in Fiscal 2007 and beyond.

I am pleased that we were able to deliver on our objectives of restoring revenue growth and profitability. We were able to increase revenue from $23.8 million in Fiscal 2005 to $43.2 million in Fiscal 2006 while EBITDA increased by $3.0 million from negative $800 thousand in Fiscal 2005 to positive $2.2 million in Fiscal 2006. I am particularly pleased that this improvement was achieved while Guest-Tek faced margin pressures due to a stronger Canadian dollar and higher labour costs and while we continued to invest in our OneView triple play (high-speed Internet, IP video-on-demand, and voice over IP) product development. Our strategy continues to be to increase the number of rooms under contract; increase the revenue per room by providing higher value added services; and improve profitability by increasing margins.

We began Fiscal 2006 with the task of integrating two world-class companies: Guest-Tek and Golden Tree Communications Inc. We have completed the integration of Golden Tree, and we now have a U.S. subsidiary, Guest-Tek Interactive Entertainment Inc., located in Irvine, California. Our Irvine office has become the U.S. sales and installation operations hub for the Company, and is also responsible for developing our multi-dwelling unit residential product offering. By transferring a significant portion of our purchases and operations to Irvine, we have reduced the impact of the strong Canadian dollar.

We made tremendous progress with our OneView Media IP video-on-demand and IPTV solutions. We had our first location go live in New York City in October and we continued to ramp up sales through the end of the year with over 4,000 rooms installed or under contract. Our investment in developing this technology is paying off as we completed an agreement with Peninsula Hotels to become their global provider of video-on-demand services. This exclusive and renowned group's selection of Guest-Tek is a very high profile acknowledgement that our product strategy and technological implementation are the best in the industry. As Peninsula deploys over the coming year we will benefit from increasing exposure and sales as other hotel groups look to Peninsula as a leader in the sector.

One key milestone in the development of our telephone service offering – OneView Voice - this year was the November agreement to acquire Sigpro LLC, based in Mountain View, CA. The skillset from this Silicon Valley company and their engineering division in Qingdao, China is paying off as Guest-Tek is now installing our first triple play hotel using our own IP private branch exchange ("PBX") and IP telephone handsets. We believe our ability to deliver lower cost systems with features tailored to hospitality will help to secure strong growth for the converged platform.



To support ongoing growth of our core OneView Internet business and enhance margins on recurring support revenues in February we launched our new Call Centre in Warsaw, Poland. Adding this satellite location was a key move to improve our cost structure and support our global growth strategy with a European location. Warsaw has started operations with 25 customer service seats and has the capacity to scale up to 100 seats.

Our OneView Internet business continues to grow as well. We added over 145,000 rooms in over 900 hotels, and we added an additional 145,000 rooms through the acquisition of Golden Tree and Blue Mountain Networks during the year. We completed installations at Extended Stay Hotels and La Quinta Inns and Suites. Guest-Tek was selected as one of two preferred vendors for the respected Ritz-Carlton brand of hotels and we are winning the majority of the contracts awarded. During the year we installed 10 of the 14 Ritz locations we were awarded. Guest-Tek served only one of these sites prior to this network upgrade project.

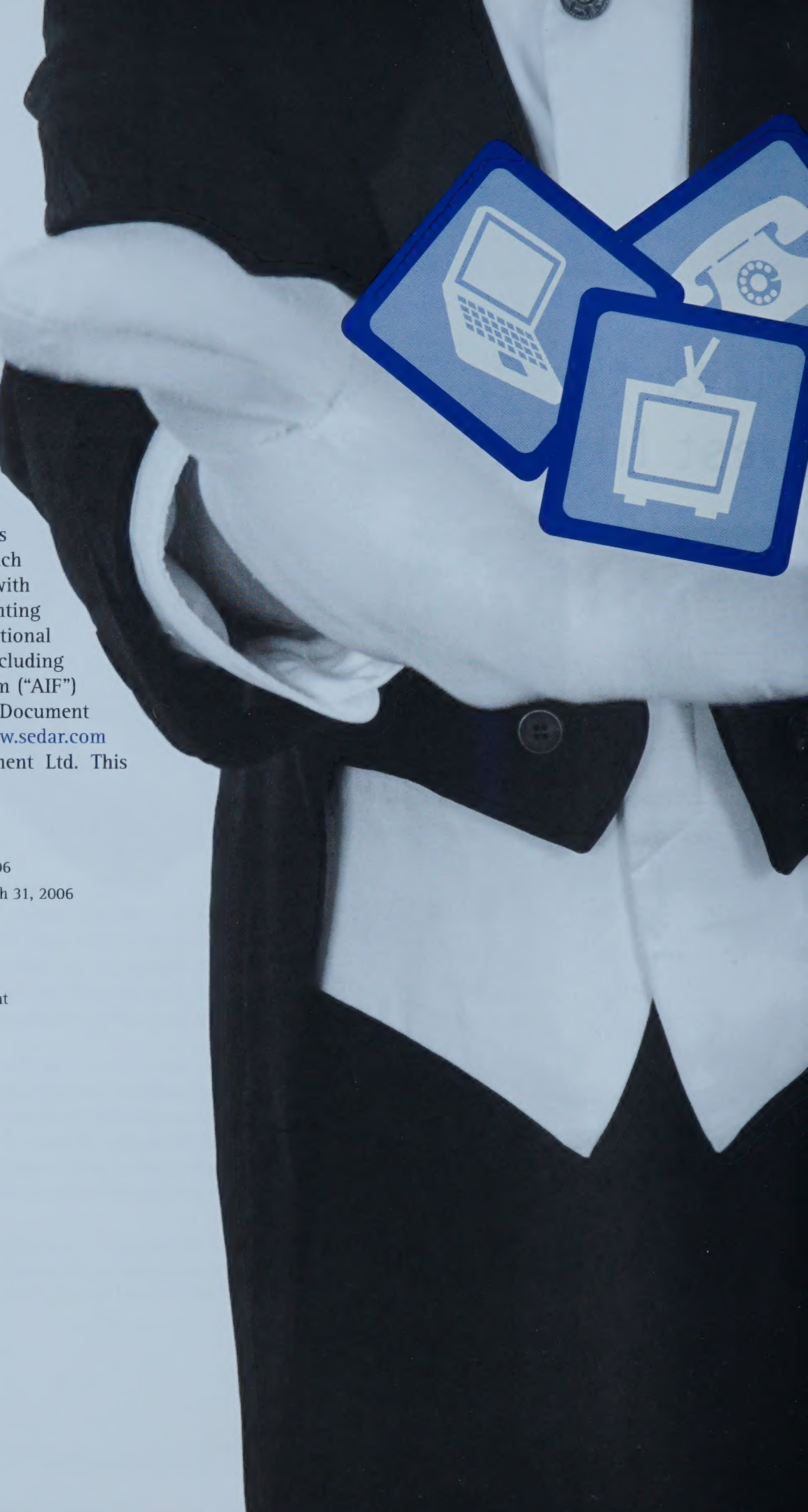
While 2006 was a strong year for the company I am not satisfied with our results. For Fiscal 2007 and beyond we will be driving hard to deliver increased cash flow and earnings from our base HSIA business while continuing to execute our triple play strategy as the growth engine for the future. We see our expanded product offering as the key to ensuring ongoing growth in our room base and significantly increasing our recurring revenue per room.

The entire organization is excited to have a commercial platform that will define a new market in hospitality. We appreciate the ongoing support of our shareholders and look forward to another successful year.

Arnon Levy
President and Chief Executive Officer

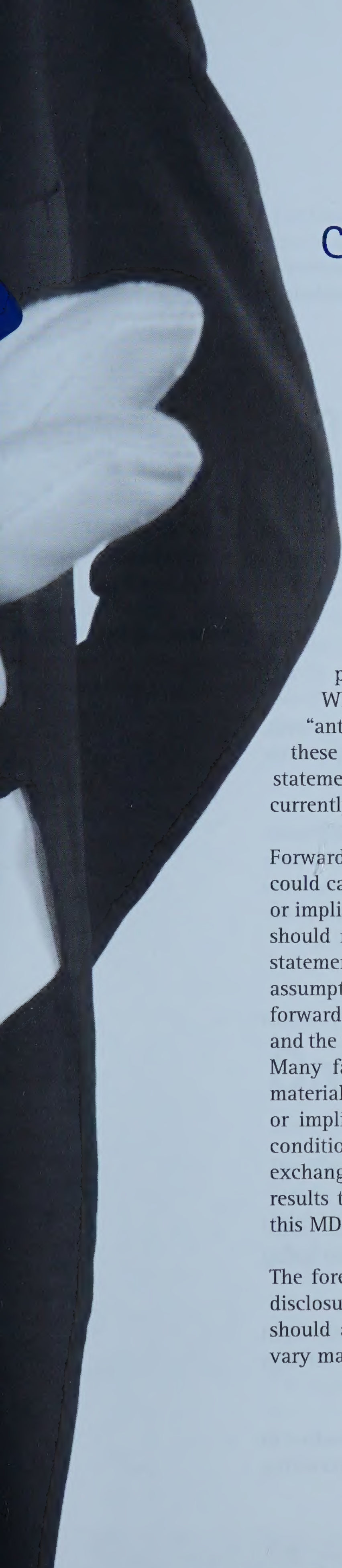
Guesttek

Management's Discussion and Analysis *Fiscal year ended March 31, 2006*



The following Management's Discussion and Analysis of financial condition and results of operations ("MD&A") dated June 12, 2006, should be read together with Guest-Tek Interactive Entertainment Ltd.'s ("Guest-Tek" or the "Company") audited annual consolidated financial statements and the accompanying notes for the year ended March 31, 2006, which have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Additional information relating to the Company including the Company's Annual Information Form ("AIF") is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com under Guest-Tek Interactive Entertainment Ltd. This MD&A covers the following:

- Overview of the Company
- Overall Performance
- Performance for the year ended March 31, 2006
- Performance for the three months ended March 31, 2006
- Outlook
- Accounting Policies and Estimates
- Risk Assessment
- Disclosure Controls and Procedures Assessment



catering to your guests' desires

Special Note Regarding Forward-Looking Statements

This MD&A contains certain forward-looking statements which reflect Management's expectations regarding the Company's growth, results of operations, performance, business prospects and opportunities.

Statements about the Company's future plans and intentions, results, levels of activity, performance, goals or achievements or other future events constitute forward-looking statements. Wherever possible, words such as "may", "will", "should", "could", "expect", "plan", "intend", "anticipate", "believe", "estimate", "predict", or "potential" or the negative or other variations of these words, or other similar words or phrases, have been used to identify these forward-looking statements. These statements reflect Management's current beliefs and are based on information currently available to Management.

Forward-looking statements involve significant risk, uncertainties and assumptions. Many factors could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking statements. These factors should be considered carefully and readers should not place undue reliance on the forward-looking statements. Although the forward-looking statements contained in this MD&A are based upon what Management believes to be reasonable assumptions, the Company cannot assure readers that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A, and the Company assumes no obligation to update or revise them to reflect new events or circumstances. Many factors could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including: general economic and market segment conditions, competitor activity, product capability and acceptance, international risk and currency exchange rates, and technology changes. More detailed assessment of the risks that could cause actual results to materially differ from current expectations is contained in the Risk Assessment section of this MD&A.

The foregoing is not exhaustive and other risks are detailed from time to time in other continuous disclosure filings of the Company. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected.

Overview of the Company

Guest-Tek is a Calgary, Alberta based provider of IP (Internet protocol) network systems and services to customers in the hospitality industry, and more recently, the multiple dwelling unit ("MDU") residential market. IP network services marketed by Guest-Tek include:

- OneView Internet and GO - high-speed Internet access ("HSIA")
- OneView Media - IP video-on-demand ("VOD") and IP television
- OneView Voice - IP telephony ("voice-over-IP", or "VOIP")
- Overall network management, event support and other services

The Company may sell these systems and services stand alone or as one package referred to as Triple Play (Internet, media, voice).

OneView internet

OneView Internet and GO - High-Speed Internet Access

HSIA is Guest-Tek's most mature product line, and represents over 90% of the Company's business. Guest-Tek delivers complete HSIA solutions over two platforms, the standard OneView Internet platform for full service hotels and the GO platform designed for limited service hotels and MDUs.

Guest-Tek's OneView Internet and GO are proprietary software technology, provided to leading hotel chains in the hospitality industry. OneView Internet and GO enable Guest-Tek's customers to offer their guests an easy-to-use and fully supported plug-and-play HSIA solution. Using this solution, hotel guests are able to connect their own computing devices, allowing access to corporate e-mail and to the Internet without downloading any software or changing any settings on their computers.

The OneView Internet or GO solution typically encompasses:

- Guest-Tek's proprietary software which provides the core functionality for guest connectivity, security, branding, billing and user reporting
- Networking equipment
- Project management, installation and training services
- Software maintenance and upgrades
- Ongoing 24/7 customer and end-user support
- Internet service provider (ISP) services (if required)

Each installation of the Company's solution typically generates one-time revenues from the initial software license, installation services and networking equipment and recurring revenues from on-going software and hardware maintenance, call center support and ISP services.

Guest-Tek has established a strong position in the HSIA industry by bringing together a managed end-to-end solution that is supported by an in-house implementation team and customer services department.

Guest-Tek's approach is designed to provide the highest level of customer service and has resulted in high customer retention rates, which is an important part of Guest-Tek's strategy to generate recurring revenue.

The Company markets and sells its solutions through direct and indirect channels to maximize geographic coverage in a cost-effective manner. A direct sales force sells OneView Internet and GO solutions in North America, South America, Europe, the Middle East, Australia and Asia, and the Company also uses value added resellers for its products worldwide.

OneView media

OneView Media – IP Video-on-Demand

OneView Media was introduced by the Company in the Fiscal year ended March 31, 2006, and represents a significant growth opportunity for Guest-Tek. OneView Media (formerly known as "Fluid") is a digital standard definition ("SD") IP VOD product which allows hotel guests to access movies and other services using an in-room television set. OneView Media has been designed to support high definition ("HD") TV and VOD deployments. As HD TV set-top boxes and content become commercially available OneView Media can be adapted accordingly to support HD service in a cost-effective manner in hotels. OneView Media is designed to be deployed over the same network as the HSIA solution. OneView Media is designed for hotels that are looking for the benefits that a customizable IP-based VOD system provides over incumbent coax-based VOD offerings that dominate the market. The OneView Media solution typically encompasses:

- Guest-Tek's proprietary software which provides the core functionality for VOD, billing and user reporting
- IP based free to guest TV solution
- Networking equipment
- Project management, installation and training services
- Software maintenance and upgrades
- On going 24/7 customer and end-user support
- Content management

OneView voice

OneView Voice – VoIP

OneView Voice is being rolled out by the Company to complete the suite of IP applications offered to hotels. IP based voice applications allow hotel customers to utilize a single network, while reducing initial capital costs, ongoing support and telecommunications costs. OneView Voice consists of:

- IP private branch exchange ("PBX") with hospitality feature set
- IP handsets with hospitality specific price and feature set
- Networking equipment
- Project management, installation and training services
- Software maintenance and upgrades
- Ongoing 24/7 customer and end-user support

Network Management, Event Support and Other Services

Guest-Tek's OneView software suite includes features developed to allow Guest-Tek to manage IP networks at customers' sites. These networks may have various applications and devices installed on them such as property management systems, HSIA, VOD, voice, etc. OneView allows these applications to be centrally managed, allowing the associated devices to exchange data and operate more efficiently. Guest-Tek also provides services such as event planning and management to hotel customers with conference centres.

Business Model

Guest-Tek is able to accommodate several revenue models as requested by customers. Guest-Tek generates revenue using a purchase model, a fixed fee or lease model, and a revenue share model. In any model there may be installation revenue or recurring revenue as shown on Guest-Tek's financial statements.

Most often, Guest-Tek's revenue follows the purchase model. In the purchase model, installation revenue is generated from one-time new customer installations and recurring revenue is generated from customer support services and software maintenance fees. New installation revenue is generated when a Guest-Tek solution is installed at hotels and other hospitality sites. This requires delivering hardware, software and professional services components. Each customer requires a specific configuration and design for its infrastructure. The installation process is multi-staged and requires a detailed implementation plan to ensure quality and timeliness of delivery.

The recurring revenue component of revenue consists of monthly support and software maintenance fees, which commence upon completion of the installation process. Typically, the Company charges its customers a fixed rate per installed hotel room for support and a percentage of the software license cost for software maintenance, or a single bundled rate per room.

Occasionally, Guest-Tek enters into revenue sharing arrangements if requested by customers. In a revenue share contract, installation costs are typically paid by Guest-Tek. Recurring revenue is generated by Guest-Tek (or the hotel) charging guests for the use of the HSIA, VOD or VoIP product. A portion of the charge is given to Guest-Tek based on the terms of the contract. The expected recurring revenue flowing to Guest-Tek over the term of a revenue share contract is expected to cover the costs of installation and the cost of support.

The cost of installation revenue consists primarily of the cost of hardware components installed at customer sites, the cost of personnel and related costs incurred in assessing the customer requirements and developing and conducting the solution implementation. The cost of recurring revenue is call center support personnel, and telecommunication costs.

Selling, general and administrative ("SG&A") costs consist of personnel and related costs associated with the Company's sales, marketing and business development functions, including commissions, advertising, trade show expenses and other promotional expenses. In addition, SG&A costs include personnel and related costs associated with the Company's administrative and finance functions as well as professional fees, office rent, insurance and other corporate expenses. Research and development expenses consist primarily of personnel and related costs associated with the development of the Company's software products and research related to new product offerings.

Economic and Market Trends

Guest-Tek's revenue and income have been adversely impacted by the strengthening of the Canadian dollar relative to the U.S. dollar over the past two years. The average exchange rate for the Fiscal year ended March 31, 2006 represented a 6.7% appreciation in the Canadian dollar compared to the average exchange rate for the Fiscal year ended March 31, 2005. Similarly, the average exchange rate for the Fiscal year ended March 31, 2005 represented a 5.5% appreciation in the Canadian dollar compared to the average exchange rate for the Fiscal year ended March 31, 2004. Approximately 87% of the Company's revenue is earned in the United States, while significant expenses are incurred in Canada.

A large portion of Guest-Tek's working capital is denominated in U.S. dollars and is subject to translation losses when converted to Canadian dollars at period end exchange rates. In addition, tangible and intangible assets acquired are also subject to translation losses. The Company employs natural hedging by increasing its U.S. dollar denominated liabilities to partially offset these losses.

During the Fiscal year ended March 31, 2006 Guest-Tek saw a continuation of the positive trends within the hospitality industry which began during the Fiscal year ended March 31, 2005. The industry has shown growth in all areas including revenue per available room and new room construction. HSIA penetration within the industry has also continued to grow.

The market for HSIA in North America is nearing maturity, however early adopters are beginning to update their infrastructure to newer technology. HSIA in other global markets is not at as advanced a market stage as in North America, and penetration is much lower. New IP applications such as IP VOD and VoIP are just emerging as new applications and have significant growth potential. Coax-based VOD in North America is a mature market.

Overall Performance

The year ended March 31, 2006 ("Fiscal 2006") was another year of significant change for Guest-Tek. New installation revenue and recurring revenue reached new highs, partly due to acquisitions and partly due to aggressive sales initiatives and new product introductions. The Company ended the year with record revenue, finishing Fiscal 2006 with total revenue of $43.2 million.

On March 30, 2005 Guest-Tek completed the acquisition of Golden Tree Communications, Inc. ("Golden Tree"). Golden Tree's operations were fully integrated into Guest-Tek's, and renamed Guest-Tek Interactive Entertainment Inc.

Net loss for Fiscal 2006 was $2.3 million. In addition to significant non-cash expenses, the net loss can be attributed to the Company investing in new products and new markets. The investments included developing products for VOD and VoIP and also the initial market development required to drive new product sales through our customer base. In addition, the Company continued to invest in new geographic markets such as Europe, the Caribbean and Latin America.

EBITDA[1] was $2.2 million for Fiscal 2006, a significant improvement over the year ended March 31, 2005 ("Fiscal 2005") when it was negative $806 thousand. Due to significant non-cash expenses associated with stock based compensation, and the amortization of intangible assets acquired in the Golden Tree acquisition, management believes EBITDA and cash flow from operations are useful measures of performance going forward.

SUMMARY OF FINANCIAL PERFORMANCE AND CONDITION

As at and for the years ended March 31, 2006, 2005, and 2004

For the year ended ($000s unless otherwise stated)	March 31, 2006	March 31, 2005	March 31, 2004
Revenue	43,198	23,776	23,202
Cost of revenue	26,670	15,420	13,843
Gross margin	16,528	8,355	9,359
Operating expenses	19,375	10,023	5,703
EBITDA[1]	2,180	(806)	3,945
Net income (loss)	(2,266)	(1,009)	3,380
Cash flow from operations[2]	1,708	(1,270)	813
Earnings (loss) per share – basic	(0.15)	(0.08)	0.35
Earnings per share – diluted	(0.15)	(0.08)	0.29
Total assets	49,460	56,113[3]	39,042
Total long-term liabilities[4]	414	741	869

[1] EBITDA, earnings before interest, taxes, depreciation, amortization, and stock based compensation expense is provided to assist investors in assessing the Company's ability to generate cash from operations. EBITDA has no standardized definition in Canadian GAAP and therefore may not be comparable to similar measures presented by other companies.
[2] Cash flow from operations is defined as cash provided by operating activities before net change in non-cash working capital components
[3] Restated-see note 3 to the Company's financial statements
[4] Long term debt and other long term liabilities excluding current portion and future tax liability

COMPARATIVE QUARTERLY OPERATING RESULTS

($000s except per share data)

	2006 Q4	2006 Q3	2006 Q2	2006 Q1	2005 Q4	2005 Q3	2005 Q2	2005 Q1
Revenue	11,841	9,127	9,602	12,627	7,946	5,526	4,743	5,561
Cost of Revenue	7,988	5,723	5,663	7,295	5,163	3,572	3,194	3,491
Gross Margin	3,853	3,404	3,939	5,332	2,783	1,953	1,548	2,070
Operating Expenses	5,252	4,839	4,705	4,580	1,951	3,179	2,959	1,932
EBITDA	378	(239)	250	1,800	1,196	(1,050)	(1,238)	286
Net Income (Loss)	(1,034)	(1,094)	(429)	291	482	(821)	(861)	190
Earnings per share – basic	(0.07)	(0.08)	(0.03)	0.02	0.04	(0.06)	(0.07)	0.02
Earnings per share – diluted	(0.07)	(0.08)	(0.03)	0.02	0.04	(0.06)	(0.07)	0.01
Total Assets	49,460	51,414	39,243	38,763	56,113	39,020	38,740	39,800
Total long-term Liabilities	414	477	680	710	741	818	915	852

KEY OPERATING STATISTICS – ONEVIEW INTERNET AND GO

	Fiscal 2006				Fiscal 2005				
for the 3 months ended	Mar 31, 2006	Dec. 31, 2005	Sept 30, 2005[5]	Jun 30, 2005	Mar 31, 2005[6]	Dec 31, 2004	Sept 30, 2004	June 30, 2004	Total to Mar 31, 2004
New Hotels Installed	139	69	332	374	270	120	82	104	-
Cumulative Hotels Installed	3,425	3,286	3,217	2,791	2,417	850	730	648	544
Installation revenue per room	$339	$127	$194	$132	$159	$152	$171	$214	-
New Rooms Installed	20,104	37,081	24,549	63,694	36,428	24,403	17,524	17,845	-
Cumulative Rooms Installed	492,913	472,809	435,728	399,479	335,785	166,190	141,787	124,263	106,418
Recurring revenue per room / month	$3.64	$3.25	$3.88	$3.80	$3.88	$3.93	$4.38	$5.04	-

[5] Cumulative amounts include Blue Mountain Networks installed base as at August 22, 2005 of 94 hotels and 11,700 rooms
[6] Cumulative amounts include Golden Tree installed base as at March 31, 2005 of 1,297 hotels and 133,167 rooms

Performance for the Fiscal Year Ended March 31, 2006

Highlights

The year ended March 31, 2006 reflected a year of growth for the Company. Revenue growth came from acquisition, new product introductions, and renewed focus on sales. Although record revenues were attained during the year, profitability suffered. Key events from the year included:

- Integration of the operations of Golden Tree Communications Inc.
- Acquisition of the assets of Blue Mountain Networks
- Significant multi-property installations completed with Extended Stay Hotels and La Quinta
- First sales of OneView Media (VOD) and OneView Voice (VoIP) solutions
- Installation of 958 OneView Media rooms in 4 hotels
- Record revenues totaling $43.2 million during the year
- Installation of OneView Internet in145,428 rooms in 914 new hotels
- Adoption of a multi-location call centre strategy and opening of the Warsaw, Poland call centre
- Signing of agreement to acquire VoIP developer and manufacturer Sigpro, LLC
- Installation of HSIA at 15 MDU properties, comprising 3,806 tenants

The Company's start to Fiscal 2006 coincided with a strong first quarter resulting from a good opening sales backlog, followed by the typical seasonal downturn in customer demand during the second and third quarters. Sales began to increase in the third quarter resulting in a good backlog for the fourth quarter. The Company finished Fiscal 2006 with strong revenue growth in the fourth quarter.

Revenue

Overall, revenue increased 81.7% to $43.2 million for Fiscal 2006 from $23.8 million for Fiscal 2005. The increase is due to several factors:

- an increase in recurring revenue due to a larger installed base of hotels and rooms, some of which is attributable to the 144,800 rooms acquired in the Golden Tree acquisition and the acquisition of the assets of Blue Mountain Networks
- an increase in new installation revenue caused by greater sales force focus
- increased installation revenue associated with new products such as OneView Media and in new markets such as MDU

New installations revenue increased by 51.2% to $24.7 million in the year ended March 31, 2006 compared to $16.3 million in the year ended March 31, 2005. The increase is primarily attributable to greater new sales success resulting from a revamped sales force. Overall, the Company installed OneView Internet in 145,428 rooms in 914 new hotel properties during the year, compared with 96,200 rooms in 576 properties last year. For the year ended March 31, 2006 installation revenue per installed room averaged $170, unchanged from $170 per room for the year ended March 31, 2005, despite a 6.7% increase in the Canadian dollar relative to the U.S. dollar. Nearly 87% of the Company's revenue is earned in U.S. dollars.

Recurring revenue increased 148.3% to $18.5 million in the year ended March 31, 2006 compared to $7.5 million in the year ended March 31, 2005. The increase is attributable to additional customer rooms installed and acquired during the year. The recurring revenue per average installed room per month was $3.67 for the year ended March 31, 2006 compared with an average of $4.02 per room per month for the year ended March 31, 2005. The decrease is partly attributable to the appreciation of the Canadian dollar, and partly attributable to competitive pressures decreasing support fees especially in high volume customer accounts. Finally, the conversion of revenue share contracts to fixed fee contracts also reduced recurring revenue per room per month. Management remains committed to improving recurring revenue per room per month and has taken several steps in that regard:

- selectively increasing prices as support contracts come up for renewal particularly where we have seen increased usage and therefore increased cost to support
- introducing tiered support services to increase recurring revenue from customers who are demanding higher level support
- offering fixed fee or lease based installation contracts and revenue share arrangements for customers who value these types of purchases
- introducing new products such as OneView Media and OneView Voice to our customer base which will increase recurring revenue per room

Gross Margin

Gross margin increased 97.8% to $16.5 million in the year ended March 31, 2006 compared to $8.4 million in the year ended March 31, 2005. Gross margin as a percentage of revenue increased from 35.1% in Fiscal 2005 to 38.3% in Fiscal 2006. The increase in gross margin as a percentage of revenue is significant as it occurred despite the appreciation of the Canadian dollar relative to it is U.S. dollar counterpart. For the year ended March 31, 2006, approximately 87% of Guest-Tek's revenue was denominated in U.S. dollars while only 30% of the cost of revenue was incurred in U.S. dollars. The increase in gross margin as a percentage of revenue is attributable to synergies associated with the integration of the Company's U.S. subsidiary, including installation and logistical efficiencies, equipment sourcing, and project management. With the integration of its U.S. subsidiary, the Company has been able to rationalize its support operations and increase gross margin on its support revenue.

Operating Expenses

Selling, general and administrative expenses increased 60.9% to $14.0 million in the year ended March 31, 2006 compared to $8.7 million in the year ended March 31, 2005. The increase in SG&A was the result of two main factors. First, marketing and sales resources were increased to focus on improving revenue growth worldwide. Sales resources were added in North America, Asia, and the Caribbean and Latin America. In addition, resources were added to begin marketing new products. Second, finance and corporate expenses increased as a result of the U.S. subsidiary operation, and the start-up and operation of the Warsaw, Poland subsidiary. SG&A as a percentage of revenue decreased to 32.3% in Fiscal 2006 from 36.5% in Fiscal 2005. Looking forward, the trend of revenue growth exceeding SG&A growth is expected to continue.

Research and development ("R&D") expenses increased 33.2% to $955 thousand in the year ended March 31, 2006, compared with R&D expenses of $717 thousand in the year ended March 31, 2005. In executing its strategy of introducing new product solutions into the hospitality industry, the Company's level of product development investment has increased. Product development resources were focused on developing the Company's IP VOD product, OneView Media, which was largely completed during the year; the hospitality specific VoIP product, OneView Voice; and the OneView network management product. In addition, the Company continued to enhance its OneView Internet product and to develop and maintain internal software tools used by the call centre. Internal software tools are designed to improve customer service, decrease support and implementation costs and provide greater management reporting information.

Scientific Research and Experimental Development ("SR&ED") tax credits decreased 35.0% to $693 thousand for the year ended March 31, 2006, from $1.1 million for the year ended March 31, 2005. The decrease is a result of larger than normal tax credits received in the year ended March 31, 2005 relating to prior years. As part of its ongoing management of the R&D effort, the Company realizes income tax credits under the Canadian Income Tax Act for SR&ED.

Foreign currency loss was $132 thousand in the year ended March 31, 2006 compared to a loss of $350 thousand in the year ended March 31, 2005. A substantial portion of the Company's revenue is earned in U.S. dollars whereas a substantial portion of the Company's operating expenses is incurred in Canadian dollars. The foreign currency loss was generated by the effect of a strengthening of the Canadian dollar during the year, which despite a realized gain on actual conversions of U.S. dollars into Canadian dollars (realized loss in Fiscal 2005), was caused by an unrealized "translation" loss on the Company's net U.S. dollar working capital position, and the net assets of its U.S. subsidiary. The Company's foreign exchange strategy is to minimize realized foreign exchange differences by employing natural hedges. Management has taken steps to reduce the effect of foreign currency translation by increasing the proportion of its liabilities that are denominated in U.S. dollars. Unrealized foreign exchange loss was $262 thousand for the year ended March 31, 2006 compared to a loss of $148 thousand for the year ended March 31, 2005.

Stock based compensation: The Company awarded 520,000 options to employees and directors during the year ended March 31, 2006. Under the Company's accounting policy, the fair value of the options is expensed over their vesting period. $1.5 million was expensed during the year ended March 31, 2006, compared to $264 thousand for the year ended March 31, 2005.

Amortization of intangible assets and deferred compensation: The Company acquired Golden Tree on March 30, 2005 resulting in the recognition of intangible assets associated with contracts, customer relationships, and deferred compensation. In addition, the Company acquired the support contracts of Blue Mountain Networks during the second quarter of Fiscal 2006. The Company amortizes the contract

assets over 8.75 years and customer relationship assets over ten years, in accordance with the estimated life of the assets. These amortization schedules were chosen to reflect the historical persistence of these assets. Deferred compensation is amortized over the vesting period of the underlying options granted to Golden Tree employees. Amortization of contract and customer relationship assets was $529 thousand for the year ended March 31, 2006 with no comparable amount in the prior year period. Amortization of deferred compensation was $567 thousand for the year ended March 31, 2006 with no comparable amount in the prior year period. Also included in intangible assets is acquired and internally developed software which is amortized over its useful life.

Income taxes

The posted income tax recovery for the year ended March 31, 2006 of $265 thousand was calculated using currently enacted income tax rates and represents an adjustment to the Company's future income tax asset and liability. The tax rate applicable for the year ended March 31, 2006 was 33.62% in Canada, 39.9% in the U.S., 30% in the UK, and 19% in Poland.

Performance for the three months ended March 31, 2006

Highlights

In the three months ended March 31, 2006 (the Company's fourth quarter of Fiscal 2006) Guest-Tek achieved record fourth quarter revenue of $11.8 million after an extended seasonal slowdown in installations. The downturn, consistent with what Guest-Tek has experienced in previous years, began in the second quarter and continued into the third quarter. During the third quarter Guest-Tek increased its backlog significantly and was able to install a majority of the backlog in the fourth quarter. Recurring revenue also increased in the quarter due to the increase in the room base. EBITDA was $378 thousand in the fourth quarter. A number of factors contributed to the lower than expected EBITDA including reduced recurring revenue gross margin, a further appreciation of the Canadian dollar relative to the U.S. dollar, start up expenses associated with the European call centre in Poland and further investment in developing and selling the Company's Triple Play (OneView Internet, OneView Media and OneView Voice) suite of applications. Key highlights from the fourth quarter included:

- Installation of OneView Internet in 20,104 rooms in 139 hotels
- Installation of OneView Media IP video-on-demand in 648 rooms in 2 hotels, with another 3,400 rooms contracted for installation in Fiscal 2007
- OneView Internet installations in 14 Ritz Carlton hotels, including 10 Host Marriott Ritz Carlton hotels - Guest-Tek is one of two preferred service providers to Ritz Carlton
- HSIA installation in over 1,800 units in 9 properties in the multi-dwelling unit (MDU) market
- Call centre efficiency improvement program underway with fully functional call centre in Poland

During the fourth quarter, the Company made several investments which management expects will benefit future periods. In particular, management focused on improving HSIA recurring revenue gross margin through the establishment of a second call centre in Warsaw, Poland. As of March 31, 2006 the new call centre was fully functioning and is expected to reduce labour costs while still maintaining Guest-Tek's respected quality of service through in-house staffing, management and training. This development is significant as the Company experienced increased labour costs in its Calgary call centre during the three months ended March 31, 2006. Start-up costs for the Poland call centre were previously expensed during the third quarter.

The Company continued to invest in infrastructure to sell and install its Triple Play suite of products which are targeted to increase the recurring revenue of its room base through providing hotel guests with higher value added services. Sales, project management and installation resources were added in the in the fourth quarter.

Compared to the third quarter of Fiscal 2006, gross margin decreased to 32.5% of revenue from 37.3%, while operating expenses as a percentage of revenue decreased to 44.4% from 53.0%. Increased call centre labour costs significantly impacted gross margin in the fourth quarter. EBITDA for the fourth quarter was $378 thousand, however the net loss for the quarter was $1.0 million. In addition to the gross margin reduction, the costs noted above contributed to the lower than expected EBITDA. Net income reported for the fourth quarter was impacted by large non-cash expenses such as stock based compensation, and amortization of intangible assets acquired in the Golden Tree acquisition.

Revenue

New installations revenue from sales of hardware, software and professional services increased 16.8% to $6.8 million in the three months ended March 31, 2006 compared with $5.8 million in the three months ended March 31, 2005. The increase was largely attributable to increased sales force focus and efficiency, particularly with regard to selling new products such as OneView Media. Sequentially, the fourth quarter installation revenue increased 43.9% from $4.7 million achieved in the third quarter of Fiscal 2006. Overall, the Company installed 20,104 rooms in 139 new properties during the quarter, compared with 36,428 rooms in 270 properties the same quarter last year.

Installation revenue per room increased to $337 per room for the three months ended March 31, 2006 compared to $159 per room for the three months ended March 31, 2005. The increase is a result of OneView Internet installation at several high end hotels, where the install is a mix of several technologies such as DSL and wireless, and an increased number of OneView Media rooms. The increase was dampened by an appreciation of the Canadian dollar relative to the U.S. dollar.

Recurring revenue increased 135.9% to $5.1 million in the three months ended March 31, 2006 compared with $2.2 million in the three months ended March 31, 2005. The improvement was primarily the result of the increase in the installed rooms completed in the past year, and the over 133,000 rooms added in the Golden Tree acquisition and over 11,000 rooms added in the Blue Mountain acquisition. Sequentially, recurring revenue for the fourth quarter increased 14.6%, compared to the $4.4 million recorded in the third quarter of this year. The increase is a result of new properties, including OneView Media properties coming on line and beginning to pay for support and content. At March 31, 2006 the Company was supporting OneView Internet or GO at a total of 492,913 rooms across 3,425 hotels as compared with 335,785 rooms in 2,417 hotels as at March 31, 2005. In addition, Guest-Tek was supporting OneView Media installations in 958 rooms at 4 hotels.

Recurring revenue per average supported room was $3.64 per room per month for the three months ended March 31, 2006, down from $3.88 per room per month for the three months ended March 31, 2005. The decrease is due to the appreciation of the Canadian dollar, but was partially offset by increased support fees charged on contract renewals. In addition, the conversion of revenue share contracts to fixed fee also reduced recurring revenue per room per month. Recurring revenue per room per month increased from $3.25 per room per month for the three months ended December 31, 2005. The increase came despite the appreciation of the Canadian dollar, and is due to higher prices being charged for new and renewed support contracts. Management remains committed to improving recurring revenue per room per month and has taken several steps in that regard as noted previously.

Gross Margin

Gross margin increased 38.4% to $3.9 million in the three months ended March 31, 2006 compared with $2.8 million in the three months ended March 31, 2005. Key components of cost of goods sold include hardware costs, personnel costs for the professional installations team and call center costs such as personnel and telecommunications. The increase in gross margin is attributable to the significant growth in installations activity and an increase in the recurring revenue base. Gross margin as a percentage of revenue decreased to 32.5% in the three months ended March 31, 2006 from 35.0% in the three months ended March 31, 2005. The decrease in gross margin as a percentage of revenue is attributable to higher labour costs in the Company's Calgary call centre operations, while the Warsaw call centre operations did not attain full scale operations until the end of the fourth quarter. In addition, installation margins on the Company's first OneView Media installations have been lower than expected as procedures continue to be developed and refined. The decrease was also partly caused by the appreciation of the Canadian dollar relative to its U.S. dollar counterpart. The Company expects its call centre strategy to produce improved recurring revenue margins in future periods. Gross margin as a percentage of revenue decreased from the 37.3% achieved in the three months ended December 31, 2005.

Operating expenses

Total operating expenses were $5.3 million for the three months ended March 31, 2006, compared to $2.0 million for the three months ended March 31, 2005. Operating expenses increased 172.0% in the three months ended March 31, 2006 compared to the three months ended March 31, 2005. Operating expenses as a percentage of revenue were 44.4% for the three months ended March 31, 2006 compared to 24.6% for the three months ended March 31, 2005. This increase is attributable to an increased in sales activities, increase administration at all locations, and a large increase in non-cash items. Specific non-cash items included amortization of assets acquired from Golden Tree and stock based compensation which collectively totaled $900 thousand for the three months ended March 31, 2006, compared to $196 thousand for the three months ended March 31, 2005. In addition, SR&ED tax credits reduced operating expenses by $328 thousand in the three months ended March 31, 2006 compared to a reduction of $907 thousand in the three months ended March 31, 2005.

Operating expenses, adjusted for non-cash items were $3.8 million or 32.4% of revenue for the three months ended March 31, 2006, compared to $2.6 million or 32.5% of revenue for the three months ended March 31, 2005 and compared to $3.8 million or 42.0% of revenue for the three months ended December 31, 2005.

Selling, general and administrative expenses increased 54.2% to $3.7 million in the three months ended March 31, 2006 compared with $2.4 million in the three months ended March 31, 2005, and represented 31.4% and 30.3% of total revenue for each period respectively. This increase in SG&A

is related to two factors. First, marketing and sales resources were increased to focus on improving revenue growth worldwide. Sales resources were added in North America, Asia, and the Caribbean and Latin America. In addition, seasoned industry sales people were brought in to actively market the Company's new products. Second, finance and corporate expenses increased as a result of the U.S. and Poland subsidiary operations.

SG&A expenses for the three months ended December 31, 2005 were $3.5 million or 38.4% of revenue. The increase in SG&A in the fourth quarter relative to the third quarter is attributable to administrative costs related to the operation of the Polish call centre, bad debts, and other corporate costs. Management's objective is to continue to optimize SG&A costs and to maintain staffing levels that are appropriate for the level of business.

Research and development expenses increased 49.8% to $248 thousand in the three months ended March 31, 2006 compared to $166 thousand incurred in the three months ended March 31, 2005. In executing its strategy of introducing new product solutions into the hospitality industry, the Company's level of product development investment has increased. Product development resources are currently focused on developing the Company's hospitality specific VOIP products; and the OneView network management product. In addition, the Company continues to enhance its OneView Internet and OneView Media products and to develop and maintain internal software tools used by the call centre. Internal software tools are designed to improve customer service, decrease support and implementation costs and provide greater management reporting information.

Scientific Research and Experimental Development ("SR&ED") tax credits decreased to $328 thousand for the three months ended March 31, 2006, from $907 thousand for the three months ended March 31, 2005. The large decrease is a result of higher than expected tax credits claimed and received in the year ended March 31, 2005 relating to R&D expenditures in prior periods. As part of its ongoing management of the R&D effort, the Company realizes income tax credits under the Canadian Income Tax Act for SR&ED.

Foreign currency gain was $81 thousand in the three months ended March 31, 2006 compared to a gain of $106 thousand in the three months ended March 31, 2005. A substantial portion of the Company's revenue is earned in U.S. dollars whereas a substantial portion of the Company's cost of revenue and operating expenses is incurred in Canadian dollars. The foreign currency gain was generated by the effect of a slight weakening of the Canadian dollar relative to the U.S. dollar during the quarter, causing realized gains on conversion of U.S. dollars into Canadian dollars, and unrealized "translation" gain on the Company's net U.S. dollar working capital position, and the net assets of its U.S. subsidiary. The Company's foreign exchange strategy is to minimize realized foreign exchange differences by employing natural hedges. Management has taken steps to reduce the effect of foreign currency translation by increasing the proportion of its liabilities that are denominated in U.S. dollars. Unrealized foreign exchange loss was $106 thousand for the three months ended March 31, 2006 compared to a gain of $98 thousand for the three months ended March 31, 2005. The Company had an unrealized foreign exchange gain of $63 thousand for the three months ended December 31, 2005.

Stock based compensation: The Company awarded options to employees during the three months ended March 31, 2006. Under the Company's accounting policy, the fair value of the options is expensed over their vesting period. $655 thousand was expensed during the three months ended March 31, 2006, compared to $196 thousand for the three months ended March 31, 2005. $340 thousand was expensed during the three months ended December 31, 2005.

Amortization of intangible assets and deferred compensation: The Company acquired Golden Tree on March 30, 2005 resulting in the recognition of intangible assets associated with contracts, customer

relationships, and deferred compensation. In addition, the Company acquired the support contracts of Blue Mountain Networks during the second quarter of Fiscal 2006. The Company amortizes the contract assets over 8.75 years and customer relationship assets over ten years, in accordance with the estimated life of the assets. Deferred compensation is amortized over the vesting period of the underlying options granted to Golden Tree employees. Amortization of intangible contract assets was $245 thousand for the three months ended March 31, 2006 with no comparable amount in the prior year period. Amortization of deferred compensation was $114 thousand for the three months ended March 31, 2006 with no comparable amount in the prior year period. Also included in intangible assets is acquired and internally developed software which is amortized over its useful life.

Income taxes

The posted income tax recovery for the three months ended March 31, 2006 of $285 thousand was calculated using currently enacted income tax rates and represents an adjustment to the Company's future income tax asset and liability. The tax rate applicable for the quarter ended March 31, 2006 was 33.62% in Canada, 39.9% in the U.S, 30% in the UK and 19% in Poland.

Liquidity and Capital Resources

In the year ended March 31, 2006, cash used in operating activities was $5.9 million compared to cash used of $970 thousand in the year ended March 31, 2005. The increase in cash used by operating activities in Fiscal 2006 was a result of a large increase in non-cash working capital. Operating cash flow (before non-cash working capital) was $1.7 million for the Fiscal 2006 compared with negative $1.3 million for Fiscal 2005. Changes in non-cash working capital used $7.6 million in cash in Fiscal 2006 compared with generating $300 thousand in cash in Fiscal 2005.

Accounts receivable increased $3.4 million in the year ended March 31, 2006 which reflects the increased level of business activity. Accounts receivable as at March 31, 2006 represented 24.4% of revenue for Fiscal 2006. Comparatively, accounts receivable as at March 31, 2005 represented 30.1% of revenue for Fiscal 2005. Accounts receivable consists of three components: invoiced amounts, revenues earned from installations in progress not yet invoiced, and other items. Of the total accounts receivable as at March 31, 2006, $6.1 million was invoiced, $3.3 million was accrued revenue and $1.2 million was other items. At March 31, 2005 invoiced accounts receivable was $5.5 million, accrued revenue was $1.3 million, and other items was $320 thousand. The most significant increase in accrued revenue relates to several projects which are nearing completion, but not yet invoiced.

Inventory increased to $3.7 million as at March 31, 2006 compared to $1.5 million as at March 31, 2005. This increase is as a result of the increased activity level in the business and the addition of custom VOD equipment which must be ordered in minimum quantities.

Current liabilities decreased in the period from $5.3 million as at March 31, 2005 to $3.6 million as at March 31, 2006.

The Company used $3.25 million in net cash in two major share capital transactions during the year. During the Fiscal year ended March 31, 2006 the Company repurchased 2,500,000 common shares at a price of $6.50 per share, for a total aggregate cost of $16.25 million. Also during the year the Company issued 2,000,000 common shares to M.P. Technologies, Inc. (the Company's majority shareholder) at a price of $6.50 per share, for total gross proceeds of $13.0 million.

The Company's investing activities consisted primarily of the purchase of property and equipment and an investment in Sigpro, LLC. a developer of VoIP products for the hospitality market. During the year ended March 31, 2006 purchases of property, equipment and intangible assets were $4.1 million compared to $960 thousand for the year ended March 31, 2005. The increase is attributable to new assets associated with fixed fee revenue and revenue share contracts; leasehold improvements; furniture; computer hardware and software for the Company's call centre expansion; and in-house developed software. In addition, the Company has loaned $3.5 million to Sigpro, LLC to partially finance the development of VOIP products for the hospitality market. The loan is collateralized against all the assets of Sigpro, earns interest at 8% per year, and is due November, 2010.

Acquisition of Golden Tree

On March 30, 2005, Guest-Tek acquired Golden Tree. Guest-Tek paid $6.6 million in cash and issued 1,797,007 common shares. In addition, the Company issued 202,993 new options to replace existing options held by Golden Tree employees. Each option entitles the option holder to receive U.S. $2.87 and one common share of Guest-Tek. The option exercise price ranges between U.S. $0.46 and U.S. $0.92. In accordance with Canadian GAAP, the total fair value of these options has been included in the purchase consideration, while the unvested portion representing $948 thousand will be expensed over the vesting schedule.

The acquisition of Golden Tree resulted in the creation of intangible assets and goodwill. $4.84 million was recognized to account for the present value of long term contracts with customers and other customer relationships. These assets will be amortized over the expected life of the contract and estimated useful life of the relationships. $243 thousand in internally developed software was recognized. The software assets will be amortized over their expected useful lives. Offsetting the intangible assets is a future tax liability of $2.98 million. The liability arises due to the fact that amortization of intangible assets does not result in a reduction of taxable income.

Cash and Cash Equivalents

At March 31, 2006 and 2005, the Company had cash and cash equivalents of $4.4 million and $21.7 million, respectively. Guest-Tek Management believes that the current cash and cash equivalents and anticipated cash flow from operating activities will be sufficient to meet its working capital and capital expenditure requirements for the foreseeable future.

CONTRACTUAL OBLIGATIONS PAYMENTS DUE BY PERIOD

Contractual Obligations	Total	2007	2008 - 2009	2010 - 2011	Beyond 2011
Capital lease obligations (including interest)	$268,625	$217,726	$50,899	-	-
Operating leases & VOD royalties	$5,954,124	$1,138,047	$2,693,552	$2,122,525	-
Total contractual obligations	$6,222,749	$1,355,773	$2,744,451	$2,122,525	-

Financial Instruments and Other Instruments

The Company's only financial instruments are the monetary assets and liabilities appearing on its balance sheet.

Outstanding Share Data

The Company's authorized share capital consists of an unlimited number of common shares. As at March 31, 2006, there were 15,768,196 outstanding common shares compared to 16,001,203 outstanding common shares at March 31, 2005. Also at March 31, 2006, there were 1,556,717 outstanding options to acquire common shares to directors, shareholders and employees of the Company. These options are disclosed in note 10(c) to the Company's March 31, 2006 annual Financial Statements.

At June 12, 2006, there were 15,772,550 outstanding common shares and 1,508,572 outstanding options.

Outlook

The North American hospitality market remains Guest-Tek's primary focus for its OneView products. Hotels appear to have recovered from an extended downturn in the travel industry with most announcing good earnings and increased capital investment plans. For the North American business traveler high-speed Internet is becoming a necessity when choosing a hotel and therefore many hotel chains have mandated high-speed Internet access as a required amenity for their brands. Guest-Tek will continue to leverage its relationships with these brands and drive penetration of its solutions further into the North American hotel industry. Although HSIA is becoming a mature industry in North America, the Company is beginning to see many early deployments of HSIA coming up for replacement due to obsolescence of equipment and technology.

Guest-Tek, with the Golden Tree acquisition, is now the world's largest provider of HSIA to the hospitality market. Guest-Tek uses its market leadership leverage to attract customers previously served by other HSIA providers. Guest-Tek's service and support history, strong balance sheet, and customer service focus will assist in this effort to increase market share.

It is expected that more mid-market and economy hotels will begin to offer high-speed Internet access to their guests. This market segment is extremely price sensitive and the Company will leverage its broadened range of products, technologies and channels to market to deliver a cost-effective solution to the largely untapped market.

As Guest-Tek deploys and supports more and more IP networks, the Company has a good opportunity to offer its customers newer solutions such as OneView Media (digital video-on-demand) and OneView Voice (VoIP). Installations of these products began in Fiscal 2006, and are expected to accelerate in Fiscal 2007. The Triple Play is evolving in the hospitality market as customers look for bundled solutions and single points of support to service their guests.

The Company is beginning to penetrate the Multi-Dwelling Unit (MDU) market in North America. The Company is providing HSIA and bulk satellite TV service to this market. The Company has secured a number of contracts in this market and has installed solutions in 15 properties to date. Consequently the Company expects that the MDU market could be a good driver of future revenue growth.

Internationally, hotels have begun to follow the North American lead in offering high-speed Internet access to guests. Guest-Tek intends to capitalize on this by increasing its focus on selected geographic markets outside North America. The Caribbean, Latin America and Europe are two areas where the Company is planning to increase sales and marketing activities in Fiscal 2007.

As HSIA becomes more mature in hotels, the upswing in usage is resulting in greater focus by the industry on quality of customer support. Guest-Tek continues to invest in its in-house call centers to meet increased demand, and expects that this focus on support will result in the conversion of competitor serviced properties to Guest-Tek service in the future.

The Company continues to investigate a number of potential acquisitions and strategic investments, however none were significantly advanced as of the date hereof.

Accounting Policies and Estimates

Significant accounting policies and methods used in the preparation of the Company's financial statements are described in note 2 to the financial statements of the Company for the year ended March 31, 2006.

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. The following critical accounting policies and estimates are impacted by judgments, assumptions and estimates used in the preparation of the Fiscal 2006 and 2005 financial statements.

Key Estimates and Assumptions

Under Canadian GAAP, the Company is required to make estimates and assumptions when accounting for and reporting assets, liabilities, revenue and expenses in the financial statements. Estimates and assumptions are based on past experience and other factors, which are believed to be reasonable under the circumstances. The Audit Committee has reviewed the disclosures described in this section.

Percentage of Completion

The Company recognizes revenue using the percentage of completion method, requiring an estimate of the progress of each installation contract. In Fiscal 2004 the Company changed its accounting policy for the recognition of revenue from arrangements with multiple deliverables, which also follows the guidance in abstract 142 of the Emerging Issues Task Force of the Canadian Institute of Chartered Accountants issued during the year. The Company has applied the change on a retroactive basis (see note 2(b) to the financial statements).

New installations generally include the delivery of hardware, software and professional services pursuant to a licensing and purchase contract. As the services element of the contract is not considered to have stand-alone value and the functionality of the hardware and software elements are determined to be significantly dependent upon the delivery of the services, revenue relating to the three elements delivered under the contract is accounted for as one unit of accounting, using the percentage of completion method. The Company prepares detailed cost estimates for each contract using third-party hardware supply costs and standard labour costing methodologies that have been established over time, based on past experience. The Company uses contractual milestones, measured by the ratio of labour input costs to total estimated labour input costs for the contract, to determine its progress to completion. Contracts are completed using established processes for contract execution and are monitored through project management procedures and status review throughout their terms. If a loss on a contract is considered probable, all of that loss is recognized at the date the loss is determinable. Amounts invoiced in excess of recorded revenues are deferred.

Contracts with customers also include a separate agreement for provision of ongoing software maintenance and support services. These services are considered to have stand-alone value and, accordingly, the related revenue is accounted for as a separate unit of accounting and is recognized on a straight-line basis over the term of the agreement.

Certain ongoing contracts with customers provide for revenue sharing with the Company. Under these agreements, the Company's customers charge their users for usage of high-speed Internet access. A portion of the usage fees charged is paid to the Company in accordance with the terms of the contracts. Those fees are recognized as revenue when the become payable to the Company and collection is reasonably assured.

Accounts Receivable

Management frequently evaluates the recoverability of accounts receivable on a customer-by-customer basis taking into account past trading experience, approved credit terms, the aging profile of past due receivables, and current market and economic conditions. Allowances for doubtful accounts are maintained when management determines that a customer's ability to pay may be doubtful. The allowance is estimated based on the likelihood of recovery.

Useful Life of Property, Plant and Equipment

Management estimates the useful life of long-lived assets at the time of acquisition, which is then used to determine depreciation expense. The estimated useful life of an asset is usually based on a combination of past experience, the purpose for which an individual asset will be used, and the likelihood of further technological changes. A change in estimate may result in a higher depreciation charge in future periods or an impairment charge to reflect a write-down in value of the asset.

Accounting Policy Adopted – Stock-based Compensation

Effective April 1, 2004, the Company retroactively adopted, without restatement, the new Canadian accounting standards for stock-based compensation to employees. In accordance with these standards, the Company recognizes, at the grant date, the compensation cost of stock options granted to employees and directors, measured at fair value and expensed over the option vesting period, with a corresponding increase to contributed surplus. Upon the exercise of the option, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The Company recorded a retroactive adjustment of $66,245 to beginning deficit at April 1, 2004 to reflect the cumulative impact of the value of options granted during the year ended March 31, 2004.

Off-Balance Sheet Arrangements

The Company has not entered into any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future-effect on the results of operations or the financial condition of the Company.

Risk Assessment

Management defines risk as the evaluation of probability that an event might happen in the future that could negatively affect the financial condition and/or results of operations of the Company. The following section describes specific and general risks that could affect the Company. As it is difficult to predict whether any risk will happen or its related consequences, the actual effect of any risk on the business could be materially different from anticipated. The following descriptions of risk do not include all possible risks as there may be other risks of which management is currently unaware.

Dependence on Market Growth

The overall market for the IP applications in the hospitality industry has experienced significant growth in recent years. There can be no assurance that the market for the Company's existing solutions will continue to grow, that customers will continue to adopt the Company's solutions or that the Company will be successful in establishing markets for its new products. If the various markets in which the Company's products compete fail to grow, or grow more slowly than the Company currently anticipates, or if the Company is unable to establish markets for its new products, the Company's business, operating results and financial condition could be materially adversely affected.

Intense Competition from HSIA and VOD Providers

The market for IP applications in the hospitality industry is highly competitive. The Company has experienced and will continue to experience intense competition from other organizations with more established sales and marketing presence, more technical services and greater financial resources. The Company's competitors may announce new products, services or enhancements that better meet the needs of customers or changing industry standards. As the market for the Company's products continues to develop, additional competitors may enter the market and competition may intensify. Increased competition may cause price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on the Company's business, results of operations and financial condition.

Failure to Manage Growth Successfully

The Company's business has grown rapidly in the last several years. The accelerated growth of the Company's revenue places a strain on managerial and financial resources. The Company's recent expansion has resulted in substantial growth in the number of its employees, the scope of its operating and financial systems and the geographic area of its operations, resulting in increased responsibility for both existing and new management personnel. The Company's future growth will depend upon a number of factors, including the ability to:

- acquire and train sales and marketing staff to create an expanding presence in the evolving marketplace for Guest-Tek's solution, and to keep staff informed regarding the technical features, issues and key selling points of Guest-Tek's solution
- attract and retain qualified technical personnel to continue to develop reliable and scalable solutions and services that respond to evolving customer needs and technological developments
- develop the client services capacity as sales increase and to continue to provide high-quality 24/7 support
- expand Guest-Tek's internal management and enhance financial controls significantly to maintain control over operations and provide support to other functional areas within Guest-Tek

Guest-Tek's inability to achieve any of these objectives could harm the Company's business, financial condition and operating results.

Failure to Install in a Timely Manner

The Company expects that the implementation of the Company's solution will become more complex as it continues to deploy in smaller properties and more geographically dispersed locations. Currently, the installation period typically involves approximately eight to twelve weeks for hardware and software program deployment, customer training and integration with the customer's other existing systems. A successful implementation program requires a close working relationship between the Company, the customer and, generally, third party vendors who assist in the process. There can be no assurance that delays or difficulties in the deployment process for any given customer or group of customers will not have a material adverse effect on the Company's business, results of operations, and financial condition.

Reliance on the Company's Proprietary Solution

The Company's business is essentially dependent on the OneView suite of IP solutions for the hospitality industry. The Company's current operations consist of marketing its OneView suite of software, project management and installation services and reselling hardware equipment and ISP services.

Risk Associated with International Operations

Management of the Company believes that its continued growth and profitability will require additional expansion of its sales in foreign markets. This expansion has required, and will continue to require, significant management attention and financial resources and could adversely affect the Company's operating margins. In order to increase international sales in subsequent periods, the Company may establish additional foreign operations, hire additional personnel and recruit international resellers. To the extent that the Company is unable to expand international sales in a timely and cost-effective manner, the Company's business, results of operations and financial condition could be materially adversely affected. In addition, even with the possible recruitment of additional personnel and international resellers, there can be no assurance that the Company will be successful in maintaining or increasing international market demand for the Company's products and services.

Risk Associated with Currency Fluctuations

A substantial portion of the Company's revenue is realized in foreign currencies, while a substantial portion of the Company's operating expenses is incurred in Canadian dollars. In the future, an increasing portion of revenues may be realized in other foreign currencies as a result of international expansion. Fluctuations in the exchange rate between the Canadian dollar and other currencies, particularly the U.S. dollar, may have a material adverse effect on the Company's results of operations and financial condition. The Company currently has no hedge in place on its foreign currency exposure.

Risk Associated with a Change in the Company's Pricing Model

The competitive market in which the Company conducts business may require Guest-Tek to change its pricing model. If the Company's competitors offer deep discounts on certain products or services in an effort to recapture or gain market share or to sell other software products, the Company may be required to lower prices or offer other favourable terms to compete successfully. Any such changes would likely result in a reduction of gross margins and could adversely affect the Company's operating results.

Dependence on Key Personnel

The success of the Company is largely dependent on the performance of its key employees and directors. Failure to retain key employees and directors and to attract and retain additional key employees with necessary skills could have a material adverse impact upon the Company's growth and profitability. Competition for highly skilled management, technical and other employees is intense. The departure or death of any of the members of the Company's executive team and key directors could have a material adverse effect on the Company's business, results of operations and financial condition.

Intellectual Property Risks

Because much of the Company's potential success and value lies in its ownership and use of intellectual property, its failure to protect its intellectual property may negatively affect its business and value. The Company's ability to compete effectively is largely dependent upon the maintenance and protection of its intellectual property. The Company relies primarily on trade secret, trademark and copyright law, as well as confidentiality procedures and licensing arrangements, to establish and protect its rights to its technology. The Company typically enters into confidentiality or license agreements with its employees, consultants, customers, strategic partners and vendors in an effort to control access to and distribution of its software, documentation and other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use the Company's proprietary technology without authorization.

Policing unauthorized use of the Company's intellectual property is difficult. The steps that the Company takes may not prevent misappropriation of its intellectual property, and the agreements the Company enters into may be difficult to enforce. In addition, effective intellectual property protection may be unavailable or limited in some jurisdictions outside Canada and the United States. Litigation may be necessary in the future in order to enforce or protect the Company's intellectual property rights or to determine the validity and scope of the proprietary rights of others. That litigation could cause the Company to incur substantial costs and divert resources away from the Company's daily business, which in turn could materially hinder its business. The Company may be subject to damaging and disruptive intellectual property litigation.
The Company may be subject to intellectual property litigation that could:

- be time-consuming and expensive
- divert attention and resources away from the Company's daily business
- impede or prevent delivery of the Company's products and services
- require the Company to pay significant royalties, licensing fees and damages

Although the Company is not aware that its products or services infringe or violate the intellectual property rights of third parties and although the Company has not been served notice of any potential infringement or violation, the Company may be subject to infringement claims in the future. Since patent applications are kept confidential for a period of time after filing, applications may have been filed that, if issued as patents, could relate to the Company's products or services.

Parties making claims of infringement may be able to obtain injunctive or other equitable relief that could effectively block the Company's ability to provide its products and services in Canada, the United States and other jurisdictions and could cause the Company to pay substantial damages. In the event of a successful claim of infringement, the Company and its customers may need to obtain one or more licenses from third parties, which may not be available at a reasonable cost, if at all. The defence of any lawsuit could result in time-consuming and expensive litigation, regardless of the merits of such claims, as well as resulting damages, license fees, royalty payments and restrictions on the Company's ability to provide its products or services, any of which could harm its business.

The Company is not aware that any of its products infringe the proprietary rights of third parties. There can be no assurance, however, that third parties will not claim such infringement by the Company or its licensees with respect to current or future products. The Company expects that software product developers will increasingly be subject to such claims as the number of products and competitors in the Company's industry segment grows and the functionality of products in different industry segments overlaps. Any such claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require the Company to enter into royalty or licensing agreements which, if required, may not be available on terms acceptable to the Company. Any of the foregoing could have a materially adverse effect on the Company's business, results of operations and financial condition.

Government regulation in various jurisdictions may restrict the willingness or ability of the Company's customers to purchase the Company's software. Potential customers are subject to laws, regulations and policies, including licensing and permit requirements, zoning restrictions, laws regulating the provisioning of Internet services and foreign share ownership restrictions, that could adversely affect their willingness or ability to:

- invest in technology necessary for the Company's software to operate
- offer plug and play high-speed Internet services to subscribers

As a result, these laws, regulations and policies may impede sales of the Company's products and services.

Risks of Security Breaches to the Company's Network

An experienced programmer may attempt on occasion to penetrate the Company's network security and could misappropriate proprietary information or cause interruptions in the Company's solution. The Company has implemented various means to limit such an occurrence but may be required to expend significant capital and resources to protect against or to alleviate problems caused by such hackers in the future. Additionally, the Company may not have a timely remedy for any security attack on the Company's network security. Such purposeful security breaches could have a material adverse effect on the Company's business, results of operations and financial condition. In addition to deliberate security breaches, the inadvertent transmission of computer viruses could expose the Company to a material risk of loss or litigation and possible liability.

In offering certain payment services for some products and services, the Company could become increasingly reliant on encryption and authentication technology licensed from third parties to provide the security and authentication necessary to effect secure transmission of confidential information, such as customer credit card numbers. Advances in computer capabilities, discoveries in the field of cryptography and other discoveries, events, or developments could lead to a compromise or breach of the algorithms or licensed encryption authentication technology that the Company uses to protect such confidential information. If such a compromise or breach of the Company's licensed encryption

authentication technology occurs, it could have a material adverse effect on the Company's business, results of operations and financial condition. The Company may be required to expend significant capital and resources to protect against the threat of such security, encryption and authentication technology breaches or to alleviate problems caused by such breaches. Concerns over the security of Internet transactions and the privacy of users may also inhibit the growth of the Internet generally, particularly as a means of conducting commercial transactions.

Disclosure Controls and Procedures

The Company has implemented disclosure controls and procedures designed to provide reasonable assurance that information used internally and disclosed externally is reliable and timely. Information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulators. Further, this information is accumulated and communicated to the Company's management to allow timely decisions regarding its disclosure. The Company's Chief Executive Officer and Chief Financial Officer have concluded that as of March 31, 2006, the disclosure controls and procedures within the Company provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within the Company and its subsidiaries within the time frame required for us to make decisions regarding its disclosure. The Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures are effective. However, they do not expect that the disclosure controls and procedures and the internal controls over financial reporting will detect or prevent all errors or instances of fraud.

Management's Responsibility for Financial Reporting

Management of Guest-Tek Interactive Entertainment Ltd. is responsible for the preparation and the presentation of the consolidated financial statements and related information published in this annual report. These statements were prepared in accordance with generally accepted accounting principles in Canada, and have been approved by the Company's Board of Directors, upon recommendation from the Audit Committee.

The preparation of the financial information necessarily requires the use of some estimates and judgements, such as selection and application of accounting principles appropriate to the circumstances and with due consideration of materiality. Where appropriate, management seeks and receives guidance in these matters from external legal, accounting and other advisors.

Management ensures that all financial information contained in this report is consistent with the consolidated financial statements.

To ensure the reliability of the consolidated financial statements, management relies on the Company's system of internal controls. The accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable.

Management continuously monitors and adjusts the Company's internal controls and management information systems to accommodate a changing environment while ensuring financial integrity.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements prepared by management after considering recommendations by the Audit Committee. The Audit Committee periodically meets with management to assess financial controls and systems and to review the consolidated financial statements of the Company. The Audit Committee also meets with the independent auditors to discuss engagement, the audit approach, their review of internal accounting controls, and the results of their audit examination prior to recommending it's approval of the consolidated financial statements.

Arnon Levy
Chief Executive Officer
June 12, 2006

Geoff Clark
Chief Financial Officer
June 12, 2006

Auditors' Report

To the Shareholders of Guest-Tek Interactive Entertainment Ltd.

We have audited the consolidated balance sheet of Guest-Tek Interactive Entertainment Ltd. as at March 31, 2006 and the consolidated statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at March 31, 2005 and for the year then ended, prior to adjustment for the restatement described in Note 3, were audited by other auditors who expressed an opinion without reservation on those statements in their report dated June 24, 2005. We have audited the adjustments to the financial statements for the year ended March 31, 2005 and in our opinion, such adjustments, in all material respects, are appropriate and have been properly applied.

PricewaterhouseCoopers LLP

Calgary, Alberta, Canada

June 12, 2006

Consolidated Balance Sheets

March 31, 2006 and 2005	2006	2005
		(Restated - note 3)
Assets		
Current assets:		
Cash and cash equivalents	$ 4,443,445	$ 21,695,658
Accounts receivable (note 4)	10,542,343	7,145,029
Installations in progress	302,230	706,749
Inventory	3,666,638	1,485,689
Prepaid expenses and deposits	1,043,893	381,136
Future income tax asset (note 5)	1,385,288	1,365,808
	21,383,837	32,780,069
Property and equipment (note 6)	5,406,330	4,377,948
Deferred compensation	381,067	948,396
Advance to Sigpro LLC (note 7)	3,503,562	-
Future income tax asset (note 5)	1,424,094	863,337
Intangible assets (note 8)	5,593,280	5,374,564
Goodwill	11,768,224	11,768,224
	$ 49,460,394	$ 56,112,538

See accompanying notes to financial statements

Approved by the Board:

Director

Director

Consolidated Balance Sheets

March 31, 2006 and 2005		2006		2005
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	2,312,182	$	4,524,778
Customer Deposits		1,047,747		558,001
Current portion of capital lease obligations (note 9)		204,647		200,094
		3,564,576		5,282,873
Capital lease obligations (note 9)		48,615		253,274
Deferred leasehold inducement		365,440		487,237
Future tax liability (note 5)		2,402,336		2,984,874
Shareholders' equity:				
Share capital (note 10)		53,539,301		47,293,811
Contributed surplus (note 11)		2,399,567		1,875,308
Deficit		(12,859,441)		(2,064,839)
		43,079,427		47,104,280
Commitments (note 12)				
Contingency (note 16)				
	$	49,460,394	$	56,112,538

See accompanying notes to financial statements

Consolidated Statements of Operations and Deficit

Years ended March 31, 2006 and 2005		2006		2005
Revenue:				
New installations	$	24,673,258	$	16,315,205
Recurring revenues		18,524,333		7,460,611
		43,197,591		23,775,816
Cost of revenue		26,669,896		15,420,488
Gross Margin		16,527,695		8,355,328
Operating expenses:				
Selling, general and administrative		13,962,428		8,670,626
Research and development		954,597		716,552
Amortization of property & equipment		1,937,587		506,284
Amortization of intangible assets & deferred compensation		1,544,072		44,084
Management reorganization		-		489,835
Foreign currency loss		131,609		350,132
Stock based compensation (note 10)		1,516,038		264,139
Interest expense		37,620		46,568
Gain on disposal of assets		(15,912)		-
Research and development tax credits		(692,612)		(1,065,537)
		19,375,427		10,022,683
(Loss) income from operations		(2,847,732)		(1,667,355)
Interest income		316,361		605,773
(Loss) income before income taxes		(2,531,371)		(1,061,582)
Income tax (recovery) expense (note 5)		(265,019)		(52,466)
Net (loss) income		(2,266,352)		(1,009,116)
Deficit, beginning of year		(2,064,839)		(913,811)
Adjustment for change in accounting policy for stock based compensation (note 2(k))		-		(66,245)
		(2,064,839)		(980,056)
Cost of repurchased common shares for cancellation in excess of stated capital (note 10)		(8,528,250)		(75,667)
Deficit, end of year	$	(12,859,441)	$	(2,064,839)
Net (loss) income per share:				
Basic	$	(.15)	$	(.08)
Diluted		(.15)		(.08)
Weighted average number of shares:				
Basic		14,856,599		12,920,376
Diluted		15,236,108		13,504,755

See accompanying notes to financial statements.

Consolidated Statements of Cash Flows

Years ended March 31, 2006 and 2005		2006		2005
Cash provided by (used in)				
Operating activities:				
Net (loss) income	$	(2,266,352)	$	(1,009,116)
Non-cash items:				
Amortization of leasehold inducement		(121,798)		(129,708)
Amortization of property & equipment		1,937,587		574,874
Amortization of intangibles & deferred compensation costs		1,544,072		-
Future income taxes expense (recovery)		(470,891)		(52,466)
Stock based compensation		1,516,038		264,139
Unrealized foreign exchange loss (gain)		261,719		147,831
Research and development tax credits		(692,612)		(1,065,537)
		1,707,763		(1,269,983)
Net change in non-cash working capital components		(7,559,351)		300,034
		(5,851,588)		(969,949)
Financing activities:				
Issuance of share capital		13,000,000		-
Cash received on options exercised		266,993		1,097,720
Repurchase of share capital		(16,250,000)		(231,700)
Cash paid to settle Golden Tree options (notes 10 & 11)		(508,758)		-
Share purchase loans repayment		102,375		780,875
Share issue costs		(63,992)		(102,625)
Capital lease obligations		(200,105)		(235,388)
		(3,653,487)		1,308,882
Net change in non-cash working capital components		-		115,250
		(3,653,487)		1,424,132
Investing activities:				
Business acquisition		-		(7,008,591)
Cash acquired on acquisition		-		469,149
Purchase of property, equipment & intangible assets		(4,064,804)		(959,851)
Advance to Sigpro LLC		(3,503,562)		-
Gain on disposal of assets		(15,912)		-
Leasehold inducement		-		63,280
		(7,584,278)		(7,436,013)
Net change in non-cash working capital components		98,859		631,915
		(7,485,419)		(6,804,098)
Impact of foreign exchange on cash		(261,719)		(147,831)
(Decrease) increase in cash a& cash equivalents		(17,252,213)		(6,497,746)
Cash and cash equivalents, beginning of year		21,695,658		28,193,404
Cash and cash equivalents, end of year	$	4,443,445	$	21,695,658
Comprised of:				
Cash	$	4,443,445	$	3,314,616
Term deposits		-		18,381,042
	$	4,443,445	$	21,695,658
Interest received	$	333,589	$	605,773
Interest paid	$	37,621	$	46,568
Tax installments paid	$	861,270		-

See accompanying notes to financial statements.

1. *Nature of operations*

Guest-Tek Interactive Entertainment Ltd. ("the Company") is incorporated under the Alberta Business Corporation Act. The Company delivers broadband high-speed Internet access ("HSIA"), video on demand ("VOD") and voice over Internet protocol ("VoIP") solutions to businesses serving mobile users principally in the hospitality industry.

2. *Significant accounting policies*

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The following is a summary of significant accounting policies:

(a) Basis of presentation

These consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned.

(b) Revenue recognition

Installation Revenue: New installations generally include the delivery of hardware, software and professional services pursuant to a licensing and purchase contract. As the services element of the contract is not considered to have stand-alone value and the functionality of the hardware and software elements are determined to be significantly dependent upon the delivery of the services, revenue relating to the three elements delivered under the contract is accounted for as one unit of accounting, using the percentage of completion method. The Company prepares detailed cost estimates for each contract using third-party hardware supply costs and standard labour costing methodologies that have been established over time, based on past experience. The Company uses contractual milestones, measured by the ratio of labour input costs to total estimated labour input costs for the contract, to determine its progress to completion. Contracts are completed using established processes for contract execution and are monitored through project management procedures and status review throughout their terms. If a loss on a contract is considered probable, all of that loss is recognized at the date the loss is determinable. Amounts invoiced in excess of recorded revenues are deferred.

Recurring Revenue: Contracts with customers also include a separate agreement for provision of ongoing software maintenance and support services. These services are considered to have stand-alone value and, accordingly, the related revenue is accounted for as a separate unit of accounting and is recognized on a straight-line basis over the term of the agreement.

Certain ongoing contracts with customers provide for revenue sharing with the Company. Under these agreements, the Company's customers charge their users for usage of HSIA, VOD, or VoIP. A portion of the usage fees charged is paid to the Company in accordance with the terms of the contracts. Those fees are recognized as revenue when they become payable to the Company and collection is reasonably assured.

(c) **Cash and cash equivalents**

Cash and cash equivalents consist of bank deposits and short-term investments with maturities when purchased of three months or less.

(d) **Inventory**

Inventory is recorded at the lower of cost determined on an average cost basis and net realizable value.

(e) **Property and equipment**

Property and equipment are recorded at cost. Amortization is provided over the estimated useful lives of the assets using the following methods and rates:

Assets	Method	Rate
Computer hardware	Declining - balance	20% - 30%
Furniture and equipment	Declining - balance	20%
Leasehold improvements	Straight - line	Term of lease

Installation costs, including equipment costs, relating to revenue-share contracts and other contracts where the Company retains ownership of the assets are deferred and amortized over the term of the related contract.

(f) **Intangible assets**

Acquired computer software is recorded at cost and is amortized over a straight line basis over an expected life of one to three years.

Development costs, including costs associated with internally developed software, that meet certain criteria related to technology, market and financial feasibility under Canadian generally accepted accounting principles, are deferred. Such costs are amortized over the estimated economic life of the related product starting upon commencement of commercial sales. Development costs that do not meet such criteria are charged to income in the period of expenditure.

Other intangible assets comprised of acquired customer contracts and customer relationships, are recorded at cost and amortized on a straight line basis over the term of the contract or estimated useful life.

(g) **Goodwill**

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values.

Goodwill is not amortized, but is tested for impairment in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired.

The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying value of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of the goodwill is determined in the same manner as the value of the goodwill is determined in a business combination using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of a reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

(h) Impairment of long lived assets

Property and equipment and other long lived assets are regularly reviewed by management for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset with the sum of the undiscounted cash flows expected from its use or disposal. If such assets are considered impaired, the impairment loss to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value, generally determined on a discounted cash flow basis. Any impairment results in a write-down of the asset and a charge to income during the year.

(i) Leasehold inducement

The leasehold inducement is being amortized on a straight-line basis over the term of the lease.

(j) Income taxes

Income taxes are accounted for using the asset and liability method. Under this method, future income tax assets and liabilities are determined based on "temporary differences" (differences between the accounting basis and the tax bases of the Company's assets and liabilities) and measured using the currently enacted, or substantially enacted, tax rates and laws expected to apply when the differences are expected to be reversed.

(k) Stock-based compensation

Effective April 1, 2004, the Company retroactively adopted, without restatement, the new Canadian accounting standards for stock-based compensation to employees. In accordance with these standards, the Company recognizes the compensation cost of stock options granted to employees and directors, measured at fair value at the date of the grant and expensed over the option vesting period, with a corresponding increase to contributed surplus. Upon the exercise of the option, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. For options granted during the year ended March 31, 2004, the Company has recorded an adjustment of $66,245 to beginning deficit at April 1, 2004 to reflect the cumulative impact of the value of these options.

(l) Per share amounts

Per share amounts are calculated using the weighted average number of Common Shares outstanding during the year. Diluted per share amounts are calculated using the treasury stock method, which assumes that proceeds received from the exercise of options would be used to purchase Common Shares at the average market price during the year. The weighted average number of Common Shares outstanding is then adjusted by the net change.

(m) Foreign currency translation

Foreign currency monetary assets and liabilities of the Company's foreign subsidiaries, which are considered to be integrated, are translated at the year-end exchange rate and non-monetary assets and liabilities are translated at historic rates. Revenues and expenses are translated at average exchange rates.

Transactions denominated in foreign currencies are translated into Canadian Dollars using the temporal method. Under this method, monetary assets and liabilities are translated using the rate of exchange in effect at the balance sheet date whereas non-monetary assets and liabilities are translated at the rate of exchange in effect on the date of the transaction.

Revenues and expenses are translated at monthly average rates prevailing throughout the period, except for amortization which is translated at the exchange rates prevailing when the related assets were acquired. Exchange gains and losses resulting from translation are included in the statement of operations and deficit.

(n) Use of estimates and assumptions

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(o) Comparative amounts

Certain of the comparative amounts have been reclassified to conform to the presentation adopted in the current year.

3. *Acquisition of Golden Tree Communications Ltd.*

On March 30, 2005, the Company acquired all of the outstanding common shares of Golden Tree Communications Ltd. ("Golden Tree"). The results of Golden Tree's operations have been included in the consolidated financial statements since that date. Golden Tree provides high-speed Internet access to hotels primarily in the United States and Mexico. The acquisition was accounted for using the purchase method.

Subsequent to completion of the Company's audited annual financial statements for the year ended March 31, 2005, it was determined that pre-acquisition non-cash working capital of Golden Tree Communications Inc. had been understated. The March 31, 2005 balance sheet has been restated with the result that the non-cash working capital was increased by $813,048 to $755,837 and Goodwill was decreased by the same amount to $11,768,224.

Net assets acquired:		
Non-cash working capital	$	755,837
Property plant and equipment		2,379,111
Software		242,540
Deferred compensation		948,396
Future tax liability		(2,984,874)
Intangible assets		4,840,534
Goodwill		11,768,224
Net assets acquired before cash position		17,949,768
Cash		469,149
		$18,418,917

Consideration:		
Cash	$	6,630,675
Common shares issued to Golden Tree shareholders		9,847,598
Fair value of options assumed		1,562,728
Transaction costs		377,916
	$	18,418,917

4. *Accounts receivable*

March 31, 2006 and 2005		2006		2005
Trade accounts receivable	$	6,129,445	$	5,499,303
Accrued revenue		3,251,541		1,325,444
Other receivables		1,161,357		320,282
	$	10,542,343	$	7,145,029

5. *Income taxes*

Income tax expense (benefit) is calculated using the combined federal and provincial statutory income tax rate. The reconciliation of income tax expense calculations and the provision reported in the financial statements is as follows:

Years ended March 31, 2006 and 2005	2006	2005
Income before income taxes	$ (2,531,371)	$ (1,061,582)
Combined federal and provincial income tax rate	33.62%	33.62%
Expected income tax provision	$ (851,047)	$ (356,904)
Increase (decrease) in valuation allowance	-	236,600
Income taxes in other jurisdictions	36,216	-
Adjustments for enacted changes in income tax rates	-	-
Non-deductible expenses	745,333	99,403
Foreign exchange	(155,195)	-
Other	(40,326)	(31,565)
Actual income tax (benefit) expense	$ (265,019)	$ (52,466)
Current	$ 205,872	$ -
Future	(470,891)	(52,466)
Actual income tax (benefit) expense	$ (265,019)	$ (52,466)

The components of the net future income tax liability are as follows:

2006		Canada		U.S.		Other		Total
Future income tax asset (liability):								
Share issue costs	$	408,608	$	–	$	–	$	408,608
Intangible assets		–		(1,727,394)		–		(1,727,394)
Investment tax credit		1,669,053		–		–		1,669,053
Research & development expenses		665,194		–		–		665,194
Property and equipment		(239,557)		(674,942)		–		(914,499)
Non-capital losses		–		–		516,203		516,203
Other		–		–		–		–
Net future income tax (liability) asset before valuation allowance	$	2,503,298	$	(2,402,336)	$	516,203	$	617,165
Valuation allowance		–		–		(210,119)		(210,119)
Net future income tax (liability) asset	$	2,503,298	$	(2,402,336)	$	306,084	$	407,046
Current portion		1,079,204		–		306,084		1,385,288
Non-current portion		1,424,094		(2,402,336)		–		(978,242)
Net future income tax (liability) asset	$	2,503,298	$	(2,402,336)	$	306,084	$	407,046

2005		Canada		U.S.		Other		Total
Future income tax asset (liability):								
Share issue costs	$	594,345	$	–	$	–	$	594,345
Intangible assets		–		(1,936,214)		–		(1,936,214)
Investment tax credit		976,441		–		–		976,441
Research & development expenses		510,881		–		–		510,881
Property and equipment		(21,829)		(1,048,660)		–		(1,070,489)
Non-capital losses		152,471		–		236,600		389,071
Other		16,836		–		–		16,836
Net future income tax (liability) asset before valuation allowance	$	2,229,145	$	(2,984,874)	$	236,600	$	(519,129)
Valuation allowance		–		–		(236,600)		(236,600)
Net future income tax (liability) asset	$	2,229,145	$	(2,984,874)	$	–	$	(755,729)
Current portion		1,365,808		–		–		1,365,808
Non-current portion		863,337		(2,984,874)		–		(2,121,537)
Net future income tax (liability) asset	$	2,229,145	$	(2,984,874)	$	–	$	(755,729)

6. *Property and equipment*

2006	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	$ 1,483,610	$ 344,488	$ 1,139,122
Computer hardware	1,651,707	619,144	1,032,563
Computer hardware under capital leases	565,301	298,958	266,343
Leasehold improvements	751,000	284,543	466,457
Equipment installed at hotels	5,368,669	2,866,824	2,501,845
	$ 9,820,287	$ 4,413,957	$ 5,406,330

2005	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	$ 499,906	$ 148,308	$ 351,598
Computer hardware	811,748	376,445	435,303
Computer hardware under capital leases	633,913	170,879	463,034
Leasehold improvements	654,860	148,168	506,692
Equipment installed at hotels	4,461,372	1,840,051	2,621,321
	$ 7,061,799	$ 2,683,851	$ 4,377,948

7. *Advance to Sigpro LLC*

On November 8, 2005, the Company entered into a purchase agreement with Sigpro LLC of Mountain View, California ("Sigpro") to acquire all outstanding capital of Sigpro. The Company agreed to pay up to US $3.0 million in cash for 49% of the outstanding capital of Sigpro based on the achievement of three development and commercialization milestones by a specified date. If these milestones are not achieved by the specified date, the agreement provides for a reduction in consideration paid. Once all three milestones are met, the Company will have the option to purchase the remaining 51% of the outstanding capital of Sigpro for a nominal sum. In addition, if Sigpro achieves certain revenue and gross margin targets by December 31, 2006, a further US $500,000 in earn-out consideration will be paid. As of March 31, 2006 the Company did not possess any of the outstanding capital of Sigpro.

The Advance to Sigpro LLC at March 31, 2006 is a $3,503,562 loan receivable collateralized by accounts receivable, equipment and other assets. The loan bears interest at 8% per annum and is due on November 9, 2010.

8. Intangible assets

2006	Cost	Accumulated Amortization	Net Book Value
Computer software	$ 950,667	$ 528,339	$ 422,328
Software internally developed	869,753	188,678	681,075
Acquired revenue contracts and customer relationships	5,019,375	529,498	4,489,877
	$ 6,859,795	$ 1,246,515	$ 5,593,280

2005	Cost	Accumulated Amortization	Net Book Value
Computer software	$ 510,244	$ 247,952	$ 262,292
Software internally developed	274,486	2,748	271,738
Acquired revenue contracts and customer relationships	4,840,534	–	4,840,534
	$ 5,625,264	$ 250,700	$ 5,374,564

On August 22, 2005 the company purchased 94 support contracts comprising 12,000 rooms from Blue Mountain Networks for nominal cash consideration and options to purchase 70,000 common shares at a price of $5.10 for a period of 5 years.

9. Capital lease obligations

The obligations under capital leases are repayable in blended monthly installments including interest at a weighted annual average rate of 8.8%. Payments required under the leases are as follows:

2006	
2007	$ 217,726
2008	50,899
2009	–
	$ 268,625
Less amount representing interest	15,363
	$ 253,262
Less current portion, included in current liabilities	204,647
	$ 48,615

2005		
2006	$	230,197
2007		217,726
2008		50,899
2009		-
	$	498,822
Less amount representing interest		45,454
	$	453,368
Less current portion, included in current liabilities	$	200,094
	$	253,274

10. Share capital

(a) Authorized:

The Company's authorized share capital consists of an unlimited number of Common Shares.

(b) Issued:

	Number of Shares		Amount
Common shares:			
Balance, March 31, 2004	13,515,345	$	35,808,472
Share purchase loans repaid	-		883,250
Issued on exercise of stock options	443,351		575,655
Issued on exercise of warrants	300,000		522,065
Issued on acquisition of subsidiary (note 3)	1,797,007		9,847,598
Allocation from contributed surplus on exercise of stock options	-		17,804
Repurchased	(54,500)		(156,033)
Issue costs	-		(102,625)
	16,001,203	$	47,396,186
Less: Share purchase loans	-		(102,375)
Balance, March 31, 2005	16,001,203	$	47,293,811
Share purchase loans repaid	-		102,375
Reclassified from contributed surplus on exercise of stock options	-		661,864
Cash received on exercise of stock options	266,993		266,993
Issued on private placement	2,000,000		13,000,000
Repurchased	(2,500,000)		(7,721,750)
Issue costs	-		(63,992)
Balance, March 31, 2006	15,768,196	$	53,539,301

On May 27, 2005, under the terms of a substantial issuer bid, the Company repurchased 2,500,000 common shares at a price of $6.50 per share for a total cost of $16,250,000. The excess of price paid over the average stated capital per share is charged to deficit.

On October 14, 2005 the Company completed a private placement with the Company's majority shareholder M.P. Technologies, Ltd. ("MPT") for 2,000,000 common shares of the Company at a price of $6.50 per share for total gross proceeds of $13,000,000.

(c) Options

The Company has a stock option plan (the "Plan") under which the Company may grant options to employees, directors and contractors with the approval of the board of directors. The Plan allows that, at any one time, the total of all outstanding options granted under the Plan is no more than 10% of the issued and outstanding common shares of the Company. The Plan provides for options to be issued with an exercise price set at the "Market Price," defined as the volume weighted average price of the Company's common shares on the Toronto Stock Exchange for the five trading days preceding the grant date. The Plan also provides that the options will be exercisable for a maximum of ten years. Under the Plan, other terms such as the option's vesting schedule are set by the board of directors for each grant.

At March 31, 2006 there were 1,556,717 outstanding options to acquire common shares, with exercise prices ranging from $0.54 to $10.25 per share, to directors, shareholders and employees of the Company. All but 30,000 of these options expire five years after the grant date or sixty days after termination of the individual's employment with the Company. The remaining 30,000 options expire one year after grant.

The Company issued 202,993 options at an exercise price of $0.54 to $1.07 to employees of Golden Tree to replace existing options on the acquisition of Golden Tree. As of March 31, 2006, 46,083 of these options remain unexercised. Each option entitles the option holder to receive U.S. $2.87 and one Company common share. These options retain the original vesting schedule and expire 10 years after the original grant date.

	2006			2005		
	Number of Options	Weighted average exercise price		Number of Options	Weighted average exercise price	
Outstanding, beginning of year	1,401,271	$	4.23	1,111,641	$	4.27
Granted	520,000		5.85	981,993		3.76
Exercised	(266,993)		1.00	(443,351)		1.30
Cancelled	(97,561)		6.93	(249,012)		7.76
Outstanding, end of year	1,556,717	$	5.16	1,401,271	$	4.23
Exercisable, end of year	743,374	$	5.42	709,046	$	2.59

A summary of outstanding options at March 31, 2006 is as follows:

Exercise Price	Options Outstanding	Expiry Dates	Options exercisable	Weighted average contract life (years)
$ 0.54	2,177	Jan 2011 - Aug 2012	2,177	5.9
1.07	43,906	Feb 2013 - Sept 2014	4,353	7.7
1.30	75,326	Aug 2006 - May 2008	75,326	1.4
4.42	300,000	Jan 2010	100,000	3.8
4.50	392,334	Jan 2010	134,667	3.8
4.74	75,000	Jan 2010	25,000	3.8
4.83	70,000	Aug 2010	-	4.4
4.83	30,000	Jul 2006	30,000	0.4
5.10	70,000	Jul 2010	70,000	4.3
5.21	25,000	Mar 2010	25,000	4.0
6.32	255,000	Oct 2010	125,000	4.6
6.38	46,722	Apr 2008 - Jun 2008	43,096	2.1
6.57	55,000	Jan 2011	-	4.7
$ 10.25	116,252	July 2008 - Sept 2008	108,755	2.4
	1,556,717		743,374	

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: zero dividend yield; volatility of 52% (2005 - 42%); risk-free rate of 3.5% (2005 - 3.9%); and expected life of 4.8 years (2005 5 years). The weighted average fair value of options granted during the year was $2.75 per option. At March 31, 2006, the Company has recorded $1,516,038 (2005 – $264,139) as compensation expense.

11. *Contributed surplus*

For stock options granted to employees and directors after April 1, 2003, the Company records compensation expense using the fair value method (noted 2(k)). Compensation costs are recognized over the vesting period as an increase to stock-based compensation expense and contributed surplus. When options are exercised, the fair value in contributed surplus is credited to share capital. Changes to the contributed surplus balance are as follows:

Retroactive adoption of fair value method (note 2(k))	$ 66,245
Stock options exercised (note 2(k))	(17,804)
Stock based compensation expense	264,139
Fair value of options assumed (note 3)	1,562,728
Balance at March 31, 2005	$ 1,875,308
Cash paid to settle Golden Tree options	(508,758)
Reclassification of contributed surplus to share capital on exercise of options	(661,864)
Stock based compensation expense	1,516,038
Fair value of options issued to acquire Blue Mountain contracts (note 8)	178,843
Balance at March 31, 2006	$ 2,399,567

12. Commitments

The Company is committed to minimum annual payments for VOD content royalties and rental of premises and equipment as follows:

2007	$	1,355,773
2008		1,377,890
2009		1,366,561
2010		1,280,592
2011	$	841,933

13. Segmented information

The Company operates in one reportable business segment through four different corporate entities. Geographic segmentation of revenues from external customers, property and equipment, goodwill and intangible assets is as follows. Other consists of individually immaterial allocations to the United Kingdom, Poland, and countries within the Caribbean and Latin America.

2006	United States	Canada	Other	Total
Revenue	$ 37,826,641	$ 1,925,826	$ 3,445,124	$ 43,197,591
Property and equipment	1,439,032	3,519,295	448,003	5,406,330
Goodwill	11,768,224	–	–	11,768,224
Intangible assets	$ 4,318,487	$ 1,274,793	$ –	$ 5,593,280

2005	United States	Canada	Other	Total
Revenue	$ 18,733,754	$ 3,280,843	$ 1,761,219	$ 23,775,816
Property and equipment	2,621,651	1,745,568	10,729	4,377,948
Goodwill	11,768,224	–	–	11,768,224
Intangible assets	$ 4,840,534	$ 534,030	$ –	$ 5,374,564

14. Financial instruments

(a) Fair values:

The fair values of all monetary assets and liabilities are not considered to be materially different from their carrying values due to their short term to maturity. Financial derivative instruments are not used by the Company.

(b) Credit risk:

The Company provides normal terms of credit to its customers thereby incurring credit risk. The Company believes that its evaluation process, relatively short collection terms and the high level of credit worthiness of its customers substantially mitigate its credit risk. The Company routinely charges its customers with a deposit of 25% to 35% of contract value and limits the amount of credit extended, when deemed necessary, but generally requires no collateral from its customers.

(c) Interest rate risk:

The Company is not exposed to significant interest rate risk.

(d) Foreign currency risk:

The Company sells a significant portion of its products and services to customers in the United States and in other countries. Consequently the Company is subject to foreign currency risk related to transactions denominated in foreign currency.

15. Related parties

During the year the Company incurred purchases of inventory of $248,348 (2005 - $0) from a company with a common majority shareholder of which $230,447 (2005 - $0) is included in inventory. These transactions were measured at the amount of consideration established and agreed upon by the related parties and approximated fair value.

16. Contingency

The Company has been served with two claims by two former employees related to wrongful dismissal, amounting to approximately $1,650,000. Management believes the claims are without merit.

HEAD OFFICE

Guest-Tek

Suite 240, 3030 - 3rd ave NE
Calgary, Alberta, Canada
T2A 6T7

1.866.509.1010

T. 403.509.1010
F. 403.509.1011

WEBSITE

www.guest-tek.com

DIRECTORS

Arnon Levy

Masuo Yoshimoto

Ryuzo Nakazumi

Kelly Blake

Makoto Okazaki

EXECUTIVE TEAM

Arnon Levy
Chief Executive Officer

Geoff Clark
Chief Financial Officer

Craig Snelgrove
Chief Operating Officer

Don Moore
Chief Marketing Officer

LEGAL COUNSEL

Davis and Copany LLP

Macleod Dixon LLP

AUDITORS

PricewaterhouseCoopers LLP

Calgary, Alberta, Canada

only the best for your guests


Guest-Tek's OneView solution
satisfies guests – pass it on!